

Establishing Financial Integrity in HUD'S Assisted Housing Programs

April 10, 1992



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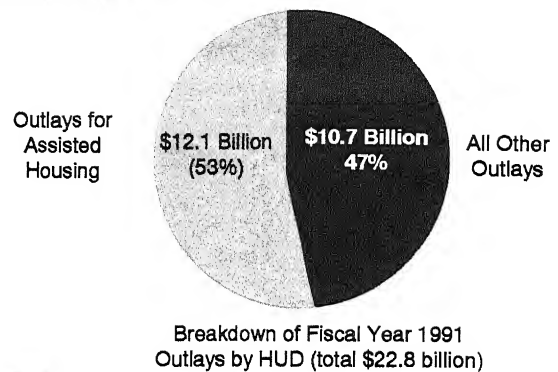
Purpose of this Pamphlet

The financial controls over Section 8 and the other source of concern among HUD staff, HUD's Inspector General has reported this problem as a "material weakness." Secretary Kemp declared that the Section 8 subsidy payment system is a weakness in HUD's financial management system.

Secretary Kemp directed the Department to undertake a study of this weakness. This pamphlet was prepared to give other interested parties an overview of the problem.

Scope of HUD'S Assisted Housing Programs

- HUD's largest single cash outlay each year (see chart)
- Rent subsidies paid on behalf of more than 3 million low- and moderate-income families
- 21 programs with legislated differences in tenant qualification requirements, subsidy computation methods, and terms of subsidy contracts (list of programs provided on back page)
- Administered by 57 HUD Field Offices and 2500 Public and Indian Housing Agencies (PHAs) nationwide



How the Programs Work

Rental assistance dollars are paid to the owners of rental units on the tenants' behalf. The subsidy is the difference between what the tenant can afford (generally 30% of adjusted family income) and the set rent for the unit. The programs fall into two major groupings:

HUD Administered Programs

(30,000 contracts between HUD and project owners; 1.67 million families assisted)

- Subsidy is tied to a unit in a HUD-insured project
- Project owner has multi-year contracts with HUD which stipulate term and amount of rental assistance and govern how the project is managed
- Owner's project manager determines eligibility of tenants to participate, enters into leases with them, and bills HUD monthly for its contribution to the tenants' rent
- HUD pays rent subsidies directly to the project on behalf of the tenants
- HUD monitors compliance with the contract and regulations, and reviews subsidy vouchers to ensure correctness of payments

PHA Administered Programs

(27,000 contracts between HUD and Public Housing Agencies; 1.38 million families assisted)

- In most cases, subsidy is tied to a tenant - not to a particular dwelling unit
- HUD enters into Annual Contributions Contract with PHA
- PHAs determine eligibility of applicants to participate
- Applicant locates an acceptable rental unit and negotiates rent with private owner
- PHA enters into contract with private owner stipulating amount of rental assistance and owner's agreement to abide by program regulations
- HUD pays subsidy to PHA, which in turn pays private owner on tenant's behalf
- HUD monitors performance of PHA, which in turn monitors owner performance

Description of Problems and Corrective Actions Completed

When Secretary Kemp and his staff took charge of HUD in 1989, they found that they had inherited several serious problems in the assisted housing programs. Where possible, they took immediate action to correct the problems.

1. There had been a practice of awarding rental assistance to projects based on political influence rather than merit.
Actions Completed: HUD requested passage of and implemented the HUD Reform Act, which included provisions to eliminate awarding of rental assistance to projects based on political influence rather than merit.

2. The Section 8 Accounting System contained inadequate internal controls, permitting, in one case, the embezzlement of \$1 million by a HUD employee

HUD implemented safeguards to prevent unauthorized access to the Section 8 Accounting System and to improve the

implemented within HUD, resulting in an inability to hold managers and staff

Actions Completed: Responsibility for the PHA-administered programs was reorganized under one office (Public and Indian Housing) to establish clear program authority and accountability at Headquarters, Regional, and Field Office levels.

4. Decentralized records, manual processes, and a lack of integration in existing automated systems resulted in inadequate controls over the payment of subsidies. The records for the 57,000 contracts for rental assistance were in files at 57 field offices and 10 regional accounting offices. These paper records, some of which went back more than 30 years, were used to validate the accuracy of monthly payment vouchers in a time-consuming manual process. Because the records and work processes were not automated, the following internal control weaknesses existed:

- HUD had great difficulty in developing accurate budget projections that accounted for contract amendments and the need to fund renewals of expiring contracts
- Rents and subsidies were at times miscalculated, resulting in overpayments by HUD
- Ineligible tenants were permitted to receive assistance
- It was difficult to determine whether rent increase requests from project owners were justified
- Financial settlement reviews of contracts were not performed on a timely basis, delaying identification of payment discrepancies

Actions Completed: HUD developed a comprehensive management plan to automate the records and work processes in the rental assistance programs. System development is well underway.

HUD'S Plan to Automate Its Rental Assistance Functions

The genesis of HUD's automation initiative was the Secretary's Task Force on Program Financial Management. Convened in July 1989, the Task Force was instructed to review all known financial management problems, including those in rental assistance programs, and to develop action plans to resolve them. The Task Force recommended a major automation initiative to capture all rental assistance data and ensure the accuracy of subsidy payments. The Secretary adopted this recommendation and engaged Arthur Andersen and Co. in February 1990 to develop a strategy and detailed management plan for the automation effort. In March 1991, the Secretary approved the consultant's blueprint for system development and directed that HUD proceed with the project as the Department's highest ADP priority under the leadership of the Chief Financial Officer. Work on the system began the following month.

The system is called TRACS, or Tenant Rental Assistance Certification System. TRACS will significantly improve financial management by automating manual processes and incorporating the controls that HUD needs to bring financial integrity to its rental assistance programs.

HUD'S Workplan For Developing and Implementing the System

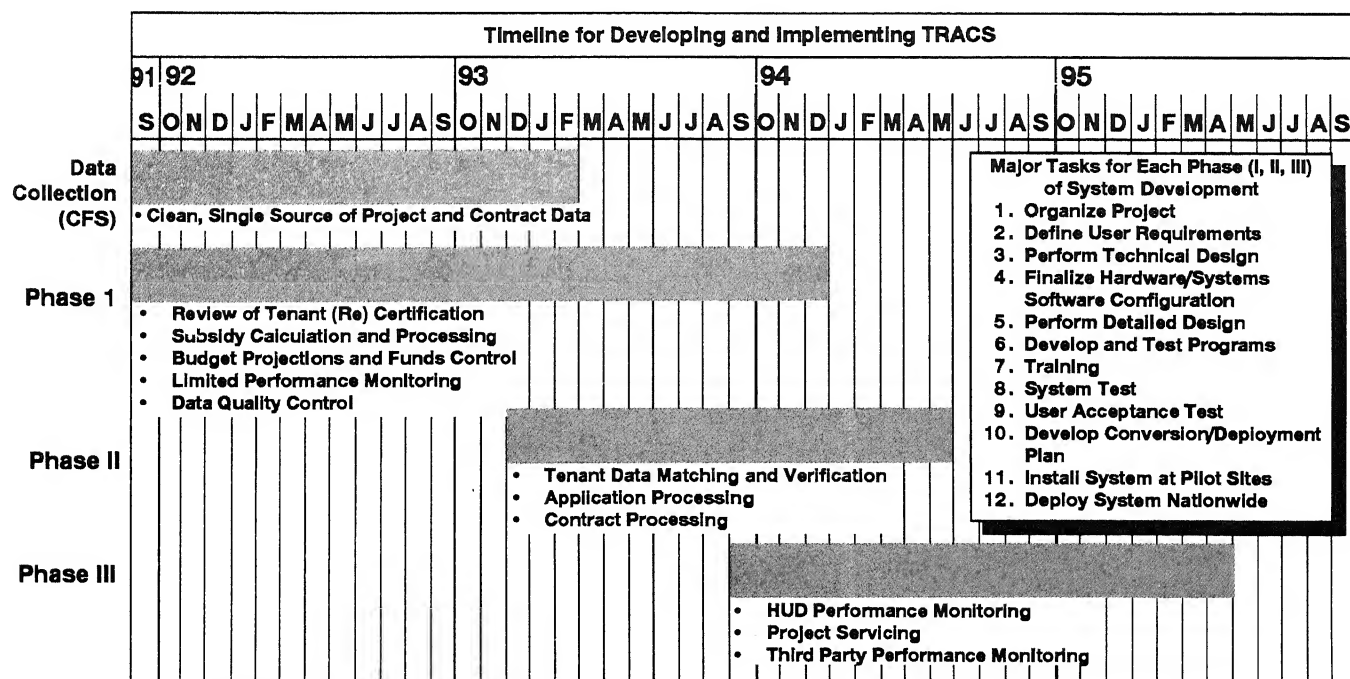
TRACS is being developed and implemented in four stages: a massive data collection and verification effort, followed by three phases of system development and implementation:

Data Collection and Verification. HUD's first step is to establish a reliable database from the documents in field office files and the data in the antiquated automated systems. All of the data that TRACS will need to operate is being reviewed, purified, and entered into an electronic database called the Control Files Subsystem (CFS). This data includes the terms and conditions in each of the 57,000 subsidy contract documents and basic project data such as number and type of units and approved rent levels. Data collection and verification began in April 1991 and is scheduled for completion by March 1, 1993.

Phase I. Concurrently, the first phase of system software development is underway. The processes to be automated in Phase I are those which are most needed to enable HUD to "stop the bleeding" of subsidy funds and to prepare accurate budgets. Once Phase I is operational, HUD will receive monthly data on tenants and units electronically from project owners and PHAs. This information, along with the contract and project information in the system, will be used to calculate and pay the correct subsidy. In addition, HUD will have the ability to project budget needs for OMB and the Congress and to better allocate subsidy funding to its regional and field offices. Phase I of TRACS is expected to be fully operational in December 1993.

Phase II. This phase will address the next most urgent needs of the Department: detection of tenant fraud and a further reduction of manual processes. Tenant data matching and verification will compare the tenant data submitted by projects and PHAs with other data sources to identify tenants who under-report their income to receive subsidies for which they are ineligible. In addition, Phase II will automate a number of work processes, such as review and approval of applications from projects and PHAs, contract processing, and billing participants for money owed to HUD.

Phase III. The final phase will automate a number of processes to improve HUD's ability to manage its subsidy programs and its multifamily insurance portfolio. This software will enable HUD to improve monitoring of its regional and field offices' performance; assist the field in planning and carrying out the servicing of insured projects; facilitate HUD's monitoring of PHAs; and give HUD the ability to access data as needed for special queries and reports.



Impact of TRACS on Program Participants

HUD-Administered Programs

- Project managers will be required to submit monthly data on tenant (re)certifications, move-ins, move-outs, etc. electronically (a regulation will be issued to address this requirement)
- Projects should experience a decrease in the workload associated with preparing and submitting paper vouchers each month
- The rate of errors in calculating and paying subsidies should decrease dramatically, along with the workload associated with correcting these errors
- Any projects which have been receiving excessive subsidies will receive reduced subsidies
- Project managers should see an improvement in the timeliness and quality of service received from their local HUD offices, since HUD staff will spend less time processing monthly vouchers

PHA-Administered Programs

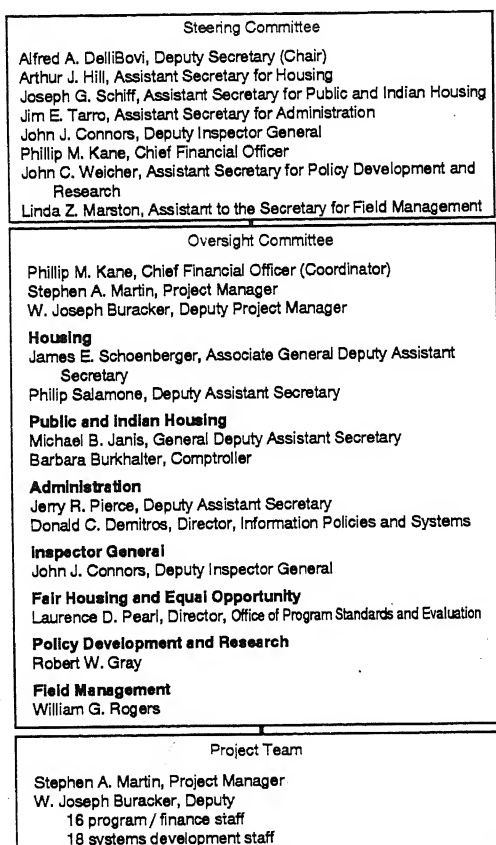
- PHAs will be required to submit monthly unit and tenant data electronically
- The current method of funding subsidies (based on the PHA's estimate of needs during the coming month) will continue; however, the monthly data submitted will form the basis for quarterly financial settlement reviews and adjustments for over- or under-funding by HUD

All Programs

- Tenants who have under-reported income or over-stated family size in order to receive rent subsidies may find that their subsidy decreases or may find themselves no longer eligible to participate in the program; on the other hand, some tenants whose subsidy has been miscalculated may see an increase in their monthly subsidy
- Projects and PHAs that have been lax in performing recertifications will have to improve their performance or risk losing subsidy dollars for tenants who have not been recertified annually as required by HUD regulations
- In some cases, implementation of TRACS may identify patterns of fraud on the part of tenants, projects, and/or PHAs; these cases will be referred to the HUD Inspector General for investigation and appropriate legal action

Management of the Project

Recognizing the size, complexity, and importance of the TRACS project, HUD has established a management structure designed to ensure that it stays on track:



- Provides policy direction
- Ensures staff give continued high priority to the project
- Reviews and approves major decisions on project scope, strategy, and timeline
- Reviews and approves allocation of resources for the project
- Receives status reports from the Oversight Committee
- Meets every two weeks

- Oversees all aspects of project
- Defines policy issues and makes policy recommendations to Steering Committee
- Reviews and approves:
 - Detailed workplan and schedule
 - Resource allocations
 - All deliverables
- Provides status reports to Steering Committee
- Refers important issues to Steering Committee for decision
- Meets every two weeks or more often when needed

- Designs, develops, and implements TRACS in accordance with detailed plans and schedules
- Refers policy issues to Oversight Committee promptly for decision
- Provides biweekly status reports to Oversight Committee
- Dedicated full-time to the project

Programs Included in TRACS

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| <ol style="list-style-type: none"> 1. Section 221 (d) (3) Below Market Interest Rate 2. Section 236 Program¹ 3. Rental Assistance Program 4. Rent Supplement Program 5. Section 202/Section 8 6. Section 202 (1959 - 1967 3% loan) 7. Section 202² (FY 91/92 capital advance (grant) and rental assistance payments) 8. Section 202² assistance for nonelderly handicapped families and individuals - Sec. 162 assistance (FY 89, 90) 9. Section 8 Moderate Rehabilitation Program 10. Section 8 Moderate Rehabilitation Program for Single Room Occupancy (SRO) Dwellings for Homeless Individuals 11. Shelter Plus Care/SRO (Section 8 Moderate Rehabilitation Program for SRO Dwellings for Homeless Individuals) 12. Section 811³ Supportive Housing for Persons with Disabilities (capital advances and rental assistance payments FY 91/92) | <ol style="list-style-type: none"> 13. Section 8 New Construction and Substantial Rehabilitation Programs 14. Section 8 Housing Assistance Payments Program-State Housing Agencies 15. Section 8 Housing Assistance Payments Program, New Construction Set-Aside for Section 515 Rural Rental Housing Projects 16. Section 8 Housing Assistance Payments Program for Projects with HUD-insured and HUD-held Mortgages (Loan Management Set-Asides) 17. Section 8 Housing Assistance Payments Program for the Disposition of HUD-owned Projects 18. Section 8 Rental Certificate Program 19. Section 8 Rental Voucher Program 20. Section 8 Moderate Rehabilitation Program, Section 8 Moderate Rehabilitation assistance (project assistance) payments 21. HUD-OWNED properties that were assisted prior to acquisition under one of the programs listed above. For this "program" the general functional requirement will be limited to the collection/processing of tenant characteristics data |
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¹ Section 236 Interest Reduction Payments and Excess Rental Income are excluded from TRACS.

² Applies to rental assistance payments portion of program only

For more information, contact Steve Martin, Project Manager, at (202) 755-4039

Prepared by the Office of Management and Planning